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SUBJECT: WHA/CEN DEPUTY DIRECTOR'S VISIT: MERIDA AND CAFTA

REF: A) SAN JOSE 0085, B) 07 SAN JOSE 0288

11. SUMMARY: (SBU) GOCR officials and legislators asked for additional Merida assistance for Costa Rica, and echoed the region's positive hopes for the Obama Administration in meetings with visiting WHA/CEN Deputy Director David Wolfe February 9-11. Key legislators made clear that the domestic political wounds from the CAFTA implementation battle have not yet healed; this may slow passage of the pending IPR technical corrections bill. They also asked about "renegotiating" CAFTA. Wolfe heard from business leaders about their growing security concerns and plans to attract more FDI in "niche" high-tech and service sectors. On Merida, Wolfe conferred with VM of Public Security Marcela Chacon, who agreed that the FY 2008 LOA's should be ready for signature in late-February or early-March, depending on Ministerial schedules. He also visited the coast guard base at Puntarenas, and stressed throughout his visit the importance of a coordinated regional approach to security (and to obtaining USG security assistance). In addition, Wolfe joined a meeting between VM of Public Security Ana Duran and a visiting team from DOJ to discuss TIP enforcement issues. Wolfe did not clear this cable in advance. MFA issues addressed septel. END SUMMARY.

WITH THE LEGISLATORS

12. (U) Post used Wolfe's visit to arrange a group meeting with three faction chiefs and three independent members of the legislature. DCM Brennan and Emboffs also participated in the wide-ranging discussion over lunch. The legislators were very optimistic about the new U.S. administration, and hopeful of a more "respectful" tone in relations with Latin America. They also described Costa Rica's "strategic importance" to the United States as a stable democracy and a regional ally.

13. (U) CONCERNS ABOUT CAFTA, AND CRIME: Pro-CAFTA legislators (such as independent Evita Arguedes) voiced concerns about President Obama's campaign pledge to re-examine free trade agreements. The PAC's Francisco Molina, whose party had vigorously opposed CAFTA (and whose party leader has consistently called for "renegotiating" the agreement) maintained that PAC only sought to modify some labor and environmental sections of CAFTA. All agreed that rising crime remained a major problem in Costa Rica, and some expressed hope that additional Merida assistance would be provided to a "deserving" Costa Rica.

14. (SBU) THE 14TH LAW: The most heated discussion (among the legislators) concerned the final CAFTA implementation legislation (making technical corrections to earlier IPR legislation). Although well-versed with the details of the bill (which is the newest item, and thus dead last on the current legislative agenda), the legislators made clear that the domestic political wounds from the CAFTA implementation battle have not yet healed. In addition to the

anti-CAFTA PAC, erstwhile pro-CAFTA partner PUSC was still fuming at the GOCR for "hiding" the final bill until the last minute. PLN faction chief Oscar Nunez (representing President Arias' party) was confident the bill would be passed, eventually.

¶5. (SBU) U.S. RESPONSE: DCM Brennan, Wolfe and Emboffs explained why "renegotiation" of CAFTA, or any other current FTA, was highly unlikely, given the other more pressing issues on the USG's agenda. Brennan also cautioned that re-opening trade agreements could cut both ways, potentially leading to tougher requirements on U.S. trading partners. Wolfe suggested that the Pathways Ministerial in April might address some of the region's concerns about the social aspects of free trade agreements. He also described the continuity underpinning USG policy in the hemisphere, even with the change in administrations. On Merida, he explained the aegis of the initiative, detailed the regional programs that would complement bilateral assistance to Costa Rica, and urged Costa Rica (and the other Merida countries) to focus on regional solutions to security, and to approaching Washington for assistance.

WITH THE BUSINESS SECTOR

¶6. (U) SECURITY CONCERNS: Security concerns, CAFTA follow-up, foreign direct investment (FDI) and the global financial crisis were top of the agenda for business leaders including AMCHAM Executive Director Lynda Solar, President Luis Gamboa, and members Charles Spalding and Jorge Villalobos. The rise in crime, they told Wolfe, was eroding one of Costa Rica's historic comparative advantages for businesses and investors. Solar called for re-energizing the Embassy-private sector Overseas Security Council (OSAC). (This group, coordinated by Post's RSO, will meet again in a few weeks.)

¶7. (U) The AMCHAM group characterized Costa Rica's legal system as unable to deal with the rising crime. While the nation bragged about being the only Central American country without overcrowded jails, the truth was not enough criminals are being put in jail, according to Gamboa. Wolfe outlined the Merida-related security assistance that Costa Rica would receive. He also encouraged the private sector to work in at-risk neighborhoods with local NGOs to offer community-based solutions to crime.

¶8. (U) FINANCIAL CRISIS: AMCHAM views President Arias' new Plan Escudo (Shield) as impractical for the private sector (Ref A). They noted that his request that the private sector redistribute hours among personnel to ensure that everyone has at least some income is financially impossible given Costa Rica's strict labor and severance laws. Any change of hours (from six days a week, eight hours a day) requires companies to pay the employee full severance. The private sector continues to work with the GOCR to make the severance laws more flexible so they can respond to his request. The AMCHAM representatives said Plan Escudo had no "meat" in it to help the private sector." Villalobos (from HSBC Bank) echoed what we have heard previously about many real estate projects stopping mid-stream because of the economic downturn. On the other hand, many companies are aware that this is the cheapest time to build and are trying to self-finance some projects.

¶9. (U) ATTRACTING FDI: In a follow-on meeting, CINDE Director Gabriella Llobet outlined plans to attract foreign investors to Costa Rica in three targeted areas: medical devices, advanced manufacturing, and professional services. (CINDE, established by an endowment originally set up by USAID, is Costa Rica's non-government, non-profit investment promotion agency.)

¶10. (U) Llobet and her staff explained that Costa Rica saw USD 2 billion in FDI in 2008, and expected to see a 30% reduction in 2009. FDI per capita was USD 445, about seven times the rate in China, translating to 6.8% of GDP and placing Costa Rica 13th in the world for attracting FDI. In 2008, thirty high tech companies invested or re-invested USD 428 million in Costa Rica, producing over 6,000 new jobs. Costa Rica's main competitors in terms of attracting FDI are Malaysia, Vietnam, Thailand, and Singapore in addition to Latin American competitors Chile and Panama. CINDE believes that there are two areas for growth in spite of the recession: medical devices and professional services. The health sector is not as susceptible to market changes and many U.S. companies may choose to move their

call centers or back office operations to Costa Rica because of the cheaper labor costs.

¶11. (U) AND KEEPING FDI: In addition to attracting companies, CINDE also works hard, through their "aftercare" customer service, to keep companies in Costa Rica and to encourage them to expand operations here. CINDE provides free assistance to obtain permits and navigate often-difficult government procedures. They also solicit feedback about how Costa Rica can be more responsive to companies' needs. For example, when companies noted that they were unable to find enough workers with sufficient English-language skills, CINDE launched pilot language training programs in targeted areas. Some of these programs have now been adopted as part of the Arias administration's national English Program.

ON THE ROAD I - SARDIMAR STILL A SUCCESS

¶12. (U) As have other Washington visitors (Ref B), Wolfe visited Sardimar Tuna Company (Costa Rican owned) as part of his field visit to the major Pacific Coast town of Puntarenas on February 10. Sardimar is the largest tuna processor in Central America, employing 1300 - most from the surrounding communities - and exporting to over 26 countries including the United States, Canada, the EU, Central America, and the Caribbean. In the U.S., Sardimar products are sold under a variety of brand names at Whole Foods and Trader Joe's.

¶13. (U) A MODEL OPERATION: As we have witnessed in previous visits, the Sardimar facility is extremely professionally run and clean, adhering to EU standards, which are often more stringent than U.S. standards. Sardimar also conducts an impressive array of corporate social responsibility programs that affect the Puntarenas community and the companies' employees. These include: equipment and technical assistance to a local hospital, including constructing a natal wing and providing a pediatric ambulance; tuna for school and nursing home lunch programs; annual Christmas parties for orphanages; and dental and eye care and budgeting classes for employees. These social activities complement Sardimar's environmental conservation efforts, which include purchasing only dolphin-safe tuna, and operating their own waste water treatment plant.

¶14. (U) CAFTA MATTERS: The lack of CAFTA-DR in Costa Rica would have particularly affected Sardimar. Had CBI expired, or CAFTA-DR not entered into force, Sardimar would have been forced to pay up to 34% in duties in the U.S. (up from four percent), and was thus considering moving out of Costa Rica last year. The economic downturn in the U.S. has minimally affected Sardimar. Only their market in El Salvador has contracted, and as a result, the company laid off several employees in December. However, no major job cuts are on the horizon

ON THE ROAD II - COAST GUARD CHALLENGES

¶15. (U) Wolfe also visited the coast guard station in Puntarenas, observing first-hand the condition of the patrol boats the Costa Rican Coast Guard (SNGC) maintains in this small, dilapidated station. SNGC Chief Engineer Adrian Delgado briefed Wolfe on the operational status of all vessels.

¶16. (U) THE OLD BOATS: Of the five largest patrol boats (all 1960's-1970's vintage U.S. vessels donated and delivered 1999-2000), only the two 82-foot vessels were operational; one was conducting a patrol during the visit. Two 47-year old 65-foot patrol boats are not operational; one is beyond repair and the other is under repair. The 31-year old 105-footer (which needs new engines and generators) is also non-operational. The two 82-footers will receive new electronic equipment via the Merida Initiative, including new radars, radios, GPSs, and other electronic gear. A third 82-footer, that will also receive Merida upgrades, is berthed in Golfito, approximately 200 miles to the south.

¶17. (U) SOME NEW BOATS: We did note that a 32-foot vessel, seized during a counter-drug operation in July 2008, was now operating for the SNGC; this represents an additional small boat capability for

the SNGC. This new addition was donated in less than six months from the Costa Rican seized-asset organization (the Costa Rican Drug Institute or ICD), a great improvement over the usual asset seizure process, which can take years in litigation. We also observed two INL-purchased 26-foot vessels at Puntarenas, one of which was in the water for the first time in over 18 months.

¶18. (U) THE FUTURE (U.S.-FUNDED) BASE: Wolfe also visited the Port of Caldera, 20 miles from Puntarenas and adjacent to the future site of the SNGC station that will replace the existing (and run down) facility. SOUTHCOM will spend between USD 2-3 million of Section 1004 construction funds to build this new SNGC complex, which will include a barracks, maintenance facility, operations center, and a floating dock. The floating dock will be future home to the FMF-funded "SAFE" boats, part of the FY 2008 Merida package for Costa Rica. Ground-breaking for the new facility is expected later this year.

COMMENT

¶19. (SBU) Wolfe's visit was well-timed to underscore the perceived renewed USG interest in the region. One legislator told us after their meeting that she was "impressed" that Wolfe had come to "listen" to Costa Rican concerns. This is still the honeymoon phase with the new U.S. administration, of course, and we may have to engage in some expectation management on Merida and other anticipated assistance programs for the region. Another challenge will be to continue to highlight the benefits from CAFTA, even as the global economic slowdown reduces some of those gains. For now, however, as Wolfe observed first hand, Costa Rica is looking forward to even closer and more positive relations with the United States under the Obama administration.

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